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Marlene H. Dortch, Esq.
Secretary
Federal Communications Commission
445 12th Street SW
Washington DC 20554

Re: FCC Incubator Proposal, MB Docket No. 17-289

Dear Ms. Dortch:

It is my understanding that the FCC is considering an incubator program to address the hurdles that prospective broadcast owners face when entering the broadcast industry. As an African-American broadcast executive with extensive experience owning and operating television stations, I welcome the opportunity to share my perspective on the challenges that I, and others, have faced in acquiring and operating television stations in a highly competitive media marketplace.

As President and CEO of Banks Broadcasting, Inc., I owned and operated two television stations – KSCW-TV (The CW) in Wichita, Kansas, and KNIN-TV (UPN) in Boise, Idaho. I acquired the stations with financial investment from LIN Television Corporation and private equity firms. The challenge, as I experienced it, was not a lack of access to capital, but a lack of access to *affordable* capital.

Although my initial acquisitions were successful, I soon realized that I needed to expand. Owning only one or two television stations in today's media marketplace is incredibly challenging. It is particularly difficult for smaller broadcasters to finance capital investments because we lack the ability to spread the costs of significant capital investments such as equipment upgrades or newsgathering vehicles across multiple stations. We are also unable to realize the efficiencies of operating multiple stations in the same market, such as sharing studio facilities and equipment. My stations also faced competition for eyeballs and advertising dollars not only from other broadcast stations, but from cable, satellite, and other non-broadcast outlets that are much larger and more consolidated than any broadcast group. My group needed to grow to stay competitive.

Obtaining financing through local and national banks was not an option. Whether I was looking for financing for my initial station purchase or an expansion, I found that national banks were only interested in financing deals for entities with significant physical assets to collateralize their loans. Local banks also did not present a viable option because they had very little interest in or understanding of the broadcast industry. This led me to private equity as a source of funds.

Unfortunately, financing television acquisitions with private equity is exponentially more expensive than using a traditional bank loan. Private equity firms generally expect a 30-35 percent internal rate of return on their investments, which can be extremely difficult for a newer and/or smaller broadcaster to achieve given the practical challenges of being a first-time owner and operating without the efficiencies of a larger station group. By contrast, national banks offer relatively low-interest loans (generally around 8-10 percent). When financing a station purchase, larger, more established broadcasters can choose this lower interest route, or can sometimes cover the entire purchase price using cash flow—incurring no cost of capital. However, this option is simply not available to new or small broadcasters. Given the high cost of capital and my lack of options for accessing capital, I did not see a viable strategy for acquiring additional stations. At the same time, without more stations, I could not achieve the economies of scale that would give my station group long-term viability in a marketplace with so many video competitors. I divested the stations in 2009.

Based on my experiences and observations of the marketplace, I believe that an incubator program can be an effective way to enable diverse broadcast executives with strong industry experience to enter the ranks of station ownership. By creating incentives for larger broadcasters to provide financing and other assistance to qualifying small businesses, it would create another, less costly financing option and help eliminate the “cost of capital” barrier. The program could also provide a means for small owners to expand beyond just one or two stations and begin realizing some of the efficiencies of owning multiple stations.

I encourage the FCC to allow significant flexibility in structuring its incubator program. For example, stations involved in an incubation arrangement should be permitted to enter into sharing arrangements (e.g., joint sales or shared services agreements). These agreements can help reduce the smaller broadcaster’s operating costs. The Commission also should provide flexibility in the number of incubating arrangements that parties can be involved in. For example, if an incubated owner proposes to own and operate two or even three stations with the support of an incubating broadcaster, that should be permitted, because it will give the new broadcaster a better understanding of what it takes to remain viable in a competitive media marketplace. Entering the marketplace with one station at a time will be less effective given that scale is the key to long-term success in the broadcast industry.

Thank you for the opportunity to share my experience. If you have any further questions, please do not hesitate to contact me.

Respectfully submitted,

/s/

Lyle Banks
Vice President & General Manager
WGCL/WPCH